US Senate Committee on Small Business and Entrepreneurship
John F. Kerry, Chairman

The Rising Costs of Energy
Challenges and Opportunities for Small Businesses

Berkshire Community College, Susan B. Anthony Building Cafeteria
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Testimony of David J. Manning, Executive Vice President, National Grid

Good morning. My name is David J. Manning and I am the Executive Vice President, US External Affairs at National Grid. I appreciate the opportunity to testify this morning to the US Senate Committee on Small Business and Entrepreneurship on *The Rising Costs of Energy: Challenges and Opportunities for Small Businesses.* This testimony deals largely with a key solution to today's and tomorrow's energy challenges: energy efficiency.

National Grid
National Grid is one of the largest investor-owned utilities in the world with a market capitalization of $38 billion. In the US, National Grid serves approximately 8 million customers (4.4 million electric and 3.4 million gas) focused in the US Northeast (Massachusetts, Rhode Island, New Hampshire and New York).

Helping Small Businesses Meet Rising Energy Costs: National Grid's Role
As a major international utility, National Grid is working with energy, government and community partners to address the challenges of rising energy costs, and related issues such as climate change, reliability, fuel supply/demand challenges and aging infrastructure. Our size and scale allow us to play a major role in transforming markets for the benefit of customers, both commercial and residential. And our recently announced "power of action" brand strategy represents our commitment to take positive actions for our customers and communities in all we do.

The Importance of Energy Efficiency
National Grid recognizes that energy efficiency is a key action to solving many of the industry's greatest challenges and must be part of any long-term energy solution for small businesses to stay competitive in a global marketplace. Studies have shown that the cost of efficiency programs averages approximately 3 cents per kilowatt-hour (kWh) as opposed to 12 cents per kWh for new generation (if that generation can even be sited today). This demonstrates that the most cost-effective power plant is the one that you do not build.

There are number of reasons that customer demand for energy management is at its highest level in years, including:

- high electricity and gas prices;
- heightened climate change awareness;
- fuel supply interruption concerns;
- increasing demand for high quality power; and
- reliability issues caused by an aging infrastructure.

Utilities like National Grid are uniquely positioned to continue, create and administer customized energy efficiency plans to meet the individual needs of their customers and service territories. This is, in large part, because we enjoy an ongoing relationship and regular communications with our customers. We know our customers, we know their service territory, we understand their needs and we know how much energy they use. All of this facilitates the marketing and delivery of energy efficiency programs efficiently and cost-effectively.

Because of this well-established relationship, customers are comfortable dealing with their local utility on practical, everyday electric and gas issues and, therefore, more receptive to participating in utility-delivered programs.

National Grid's Commitment to Energy Efficiency

National Grid plays two important roles in the area of energy efficiency:

- Provide customers with opportunities and incentives to be more energy efficient, which saves energy, money and ultimately helps the environment.
- Facilitate the development of new energy efficiency technologies and technology applications.

We have the longest uninterrupted history of program delivery of any utility in the US (over 20 years). Our efficiency programs are saving customers in New England over $250 million annually, after an expenditure of $1.5 billion on efficiency technologies:

- We've budgeted $130 million a year in electric and gas energy efficiency programs – an investment expected to double in 3-5 years.
- More than 4 million National Grid customer projects have been completed in New England to date, saving more than $3.6 billion in energy costs.
- Our programs serve as models for many other programs across the US.
- *For small businesses*, electric and gas efficiency programs include rebates, incentives and financial assistance for installing or purchasing high-efficiency equipment; onsite and online energy audits; and efficiency training and education.
- On the residential side, we're targeting the significant number of Northeast oil heating customers to convert to natural gas with rebates and incentives. When a residential customer replaces a dated oil heat appliance with a modern high efficiency gas furnace or boiler, carbon dioxide (CO_2) and other

emissions can be reduced up to 40 percent, with savings of up to 40 percent in annual fuel bills.

In 2007, we delivered energy efficiency to:

- 41,000 gas participants, saving 4.6 million therms and reducing 27,000 tons of CO_2
- 1.8 million electric participants, saving 387,000 MWh and reducing 218,000 tons of CO_2

The total CO_2 reductions equate to 48,068 cars not driven for one year.

National Grid also recently collaborated with other industry leaders and consultants McKinsey & Company to publish a landmark study, *Reducing US Greenhouse Gases: How Much at What Cost?* This well-received report found it is possible to make substantial emissions reductions by 2030 without damaging the economy, with the help of energy efficiency (see Appendix A.)

National Grid's Commitment to Climate Change Mitigation

National Grid's energy efficiency efforts are part of a broader commitment to help our customers and help the environment. Under our Global Climate Change Initiative, National Grid is balancing environmental and economic goals to best serve all our key constituents, now and in the future. Our programs help us operate in environmentally sound, efficient and cost-effective ways, which benefits our customers.

Recognizing that climate change is one of the biggest threats to society, we have made a corporate commitment to reduce our CO_2 emissions by 80 percent by the year 2050. To date, we have achieved a 37 percent reduction from our independently verified baseline. In addition, we recently announced that each of our business units will incorporate carbon budgets to limit greenhouse gas emissions. Beginning in April 2009, we will establish annual and five-year emissions targets for each business, which we will integrate into the company's overall performance process alongside customer service, reliability, safety, operational and financial targets.

One of National Grid's most successful and effective climate change actions has been a major ongoing program of replacing old cast-iron pipes with modern polyethylene pipe, which reduces methane leaks into the atmosphere.

We also continue to investigate new and alternative technologies to help reduce our impact on climate change, as well as adapting existing technologies to the changing climate. For instance, National Grid is focusing on advanced smart metering services that will help inform and change consumer behavior, and give better system information to enable us to operate our networks more efficiently. We are actively pursuing smart metering trials in the US. Simultaneously, we are pursuing smart grid projects, which can more accurately predict usage, allowing the network operator to operate more efficiently to meet demand.

We also seek to reduce emissions from our own energy use by looking to procure more of the electricity we use from renewable sources in the future, as well as implementing better energy efficiency measures within our own operations. A great example is a new, green facility we are building for 1,800 employees in Waltham, Massachusetts. The Leadership in Energy and Environmental Design (LEED) gold-certified building, expected to be completed mid-2009, features energy-efficient lighting, heating, cooling and a water recovery/conservation system.

Small Business and Climate Change Legislation
National Grid is working with multiple parties on the Lieberman-Warner draft legislation addressing climate change. We believe it will be important for more allocation revenue to be directed to Load Serving Entities (LSEs) and Local Distribution Companies (LDCs) in order to drive advanced energy efficiency technology for the benefit of consumers and small businesses.

Conclusion
The role of the utility will be critical in implementing energy efficiency in the sectors we serve. Utilities' marketing and communication expertise and budgets will develop and enhance this relationship. As energy providers, we are expected, and rightfully so, to help our customers deal with the challenges of the current and future energy price environment.

Our strategy is to make information available to them and promote the benefits of energy efficiency, while stimulating action. Our commitment to action is captured as we offer customers a robust portfolio of cost-effective, coordinated energy efficiency programs. They can then join us to manage cost, reduce their dependence on carbon fuels and enhance the environment.

To be effective, we must work with regulators on a new regulatory model already developing in various regions of the US. The current structure – where energy utilities are compensated in proportion to the volume of energy delivered – is perverse at a time when energy consumption must be reduced. Utilities must have real incentives to drive these programs, by "decoupling" their revenues from the volume of energy delivered.

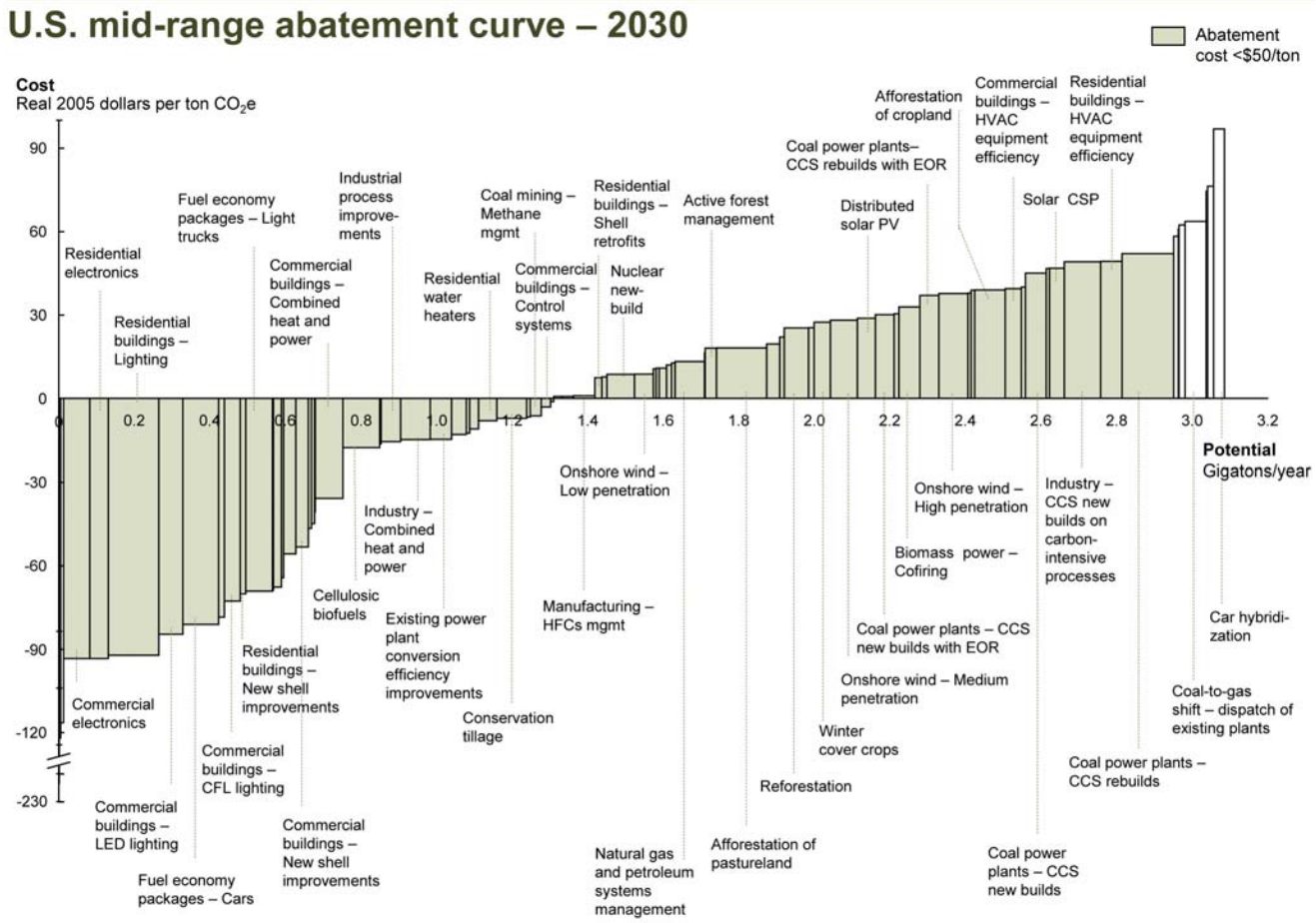
Further, uncertainty is the enemy of capital markets. As we look to invest to modernize and improve our networks, we need clear signals from Congress and the States that there will be a dependable regime that supports our investment in energy efficiency and climate change mitigation.

As founding members of the Regional Greenhouse Gas Initiative (RGGI), and as a company fully engaged in future climate change legislation in Congress, we look forward to clarity and structure to enhance the country's efforts to reduce

energy consumption. And we look forward to taking what actions we can to move the process forward.

I thank the Committee for considering these critical matters and for inviting National Grid to participate. We are proud of our record of providing quality energy services to the citizens of Massachusetts and all of our other service territories. We remain steadfast in our commitment to you, and other elected and community leaders, in finding ways to make Massachusetts an even greater place to live, work and prosper.

Thank you.



Source: McKinsey analysis

Appendix A – David J. Manning, Executive Vice President, National Grid, testimony, May 28, 2008